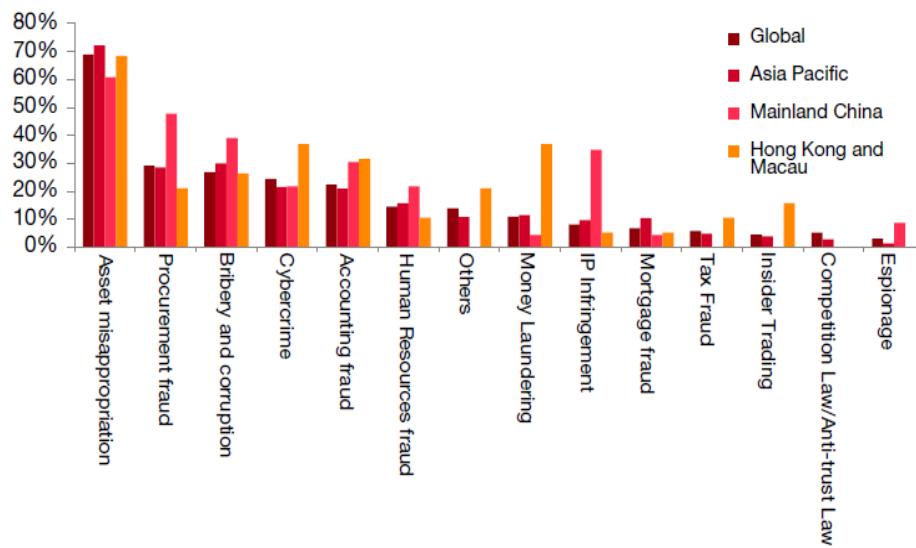




For boards and all officers responsible for Good Corporate Governance : This quarter's issue addresses:

- PwC's 2014 global economic crime survey (page 1)
- Collection of case studies (page 2)
- Prevent or detect (page 3)

## Fraud is a global problem



**37%**

More than one in three organizations report being the victim by economic crime with 32% in Asia Pacific

**53%**

More than half of CEOs surveyed reported being concerned about bribery and corruption

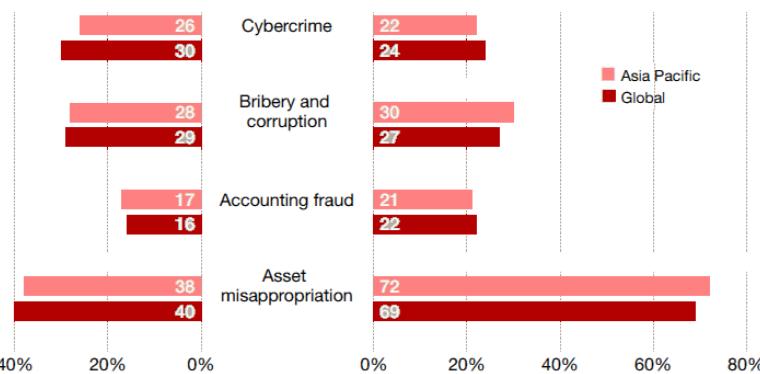
**48%**

Nearly half of respondents reported the risk of cybercrime had increased, a 23% increase from 2011

## But management perceptions of fraud are not very accurate

Expectation : all companies

Actual frauds experienced



In Asia Pacific management estimates of the incidence of asset misappropriation are about half of the true rate experienced

Source: PwC's 2014 Global Economic Crime Survey

## Faking management team

### Fraud scheme

In a manufacturing company the management were creating fake documents in the procurement process. Purchase orders, invoices, delivery notes and receipts supported fictitious transactions to defraud the company, the suppliers received commission for their support.

The GD, chief accountant, purchasing officer and warehouse manager were all actively involved, later other staff were found to be complicit.

### Detection

Whistle blower leading to internal audit review of documents and transactions

### Correction

Action against management and staff on-going

### Prevention

Routine & surprise internal audit visits, segregation of duties & rotation of sensitive roles, Computer forensic detection

### Loss

>\$100k

### Industry

Manufacturing

## Salesman's cut

A European owned manufacturer had a small sales force selling direct to farmers. Salesman increased the price to the farmer and promised a "discount" if no invoice was required. Farmers paid more than the list price but less than increased price and thought they were getting a bargain. Salesman takes the difference between list and price to farmer. Office staff take a percentage for making out fake documents. Company is unaware because it receives the normal price from the sale. Salesman's cut was equal to or greater than selling price from company.

New experienced financial controller identifies suspicious transactions

Sales force & office staff replaced

Company sending invoices direct to customer, internal audit of customer base

Reputation & competitiveness

Agriculture

## Re-cycling the wrong way

A Vietnamese owned manufacturer carried out regular maintenance. Production line components were replaced during maintenance operations and the old parts sent out in the scrap. A shadow company belonging to the production director received the old parts and cleaned, re-boxed and sold them back, as new, to the company. Directors, managers and supervisors in maintenance, production, QC, warehouse and purchasing were involved in this long term syndicated fraud.

Employee tip off, PwC forensic investigation

Civil case & staff dismissals

Analytical review of purchase invoices, effective segregation of duties in procurement, trend & review of machine downtime. Vendor accreditation & audit

>\$1m, lost production, risk of lower on-time delivery of product, risk of impaired product quality resulting in high QC costs.

Manufacturing food & beverage

## Fraud risk rises when three factors come together

Pressure could be personal or professional.

Often the first opportunity occurs by accident.

The 10,10,80 rule, a popular belief amongst fraud examiners is that 10% of staff will never steal, 10% will seek a way to steal and 80% will steal if given the opportunity with a low probability of being caught.



### What can management do?

Review the performance management system and identify if unrealistic achievements are expected.

Reduce the opportunity by having good internal controls, rotate high risk jobs and set the tone from the top that fraud is not acceptable.



\*Data Analytics was added as a category in the 2014 survey.

Chart: Comparison of fraud detection methods

- In 2014 analytics was twice as effective in detecting fraud than routine internal audit.
- Despite the cost, security only detected 5% of frauds.
- Accidental discovery was more effective than whistle blowers.
- Security and whistle blowers have a dual role of detection and deterrence.

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